

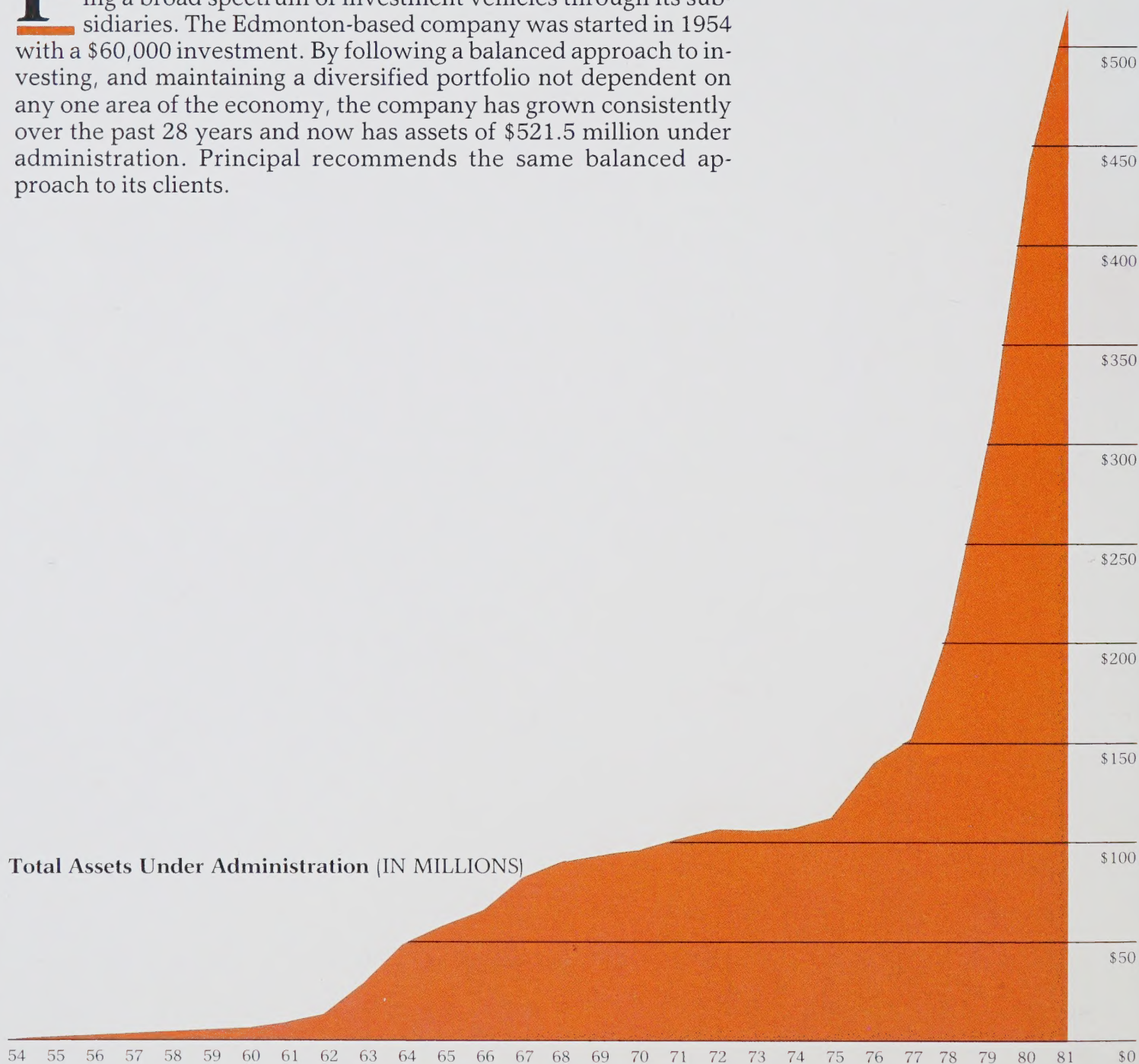
AR06

ANNUAL REPORT 1981

PRINCIPAL
GROUP LTD.

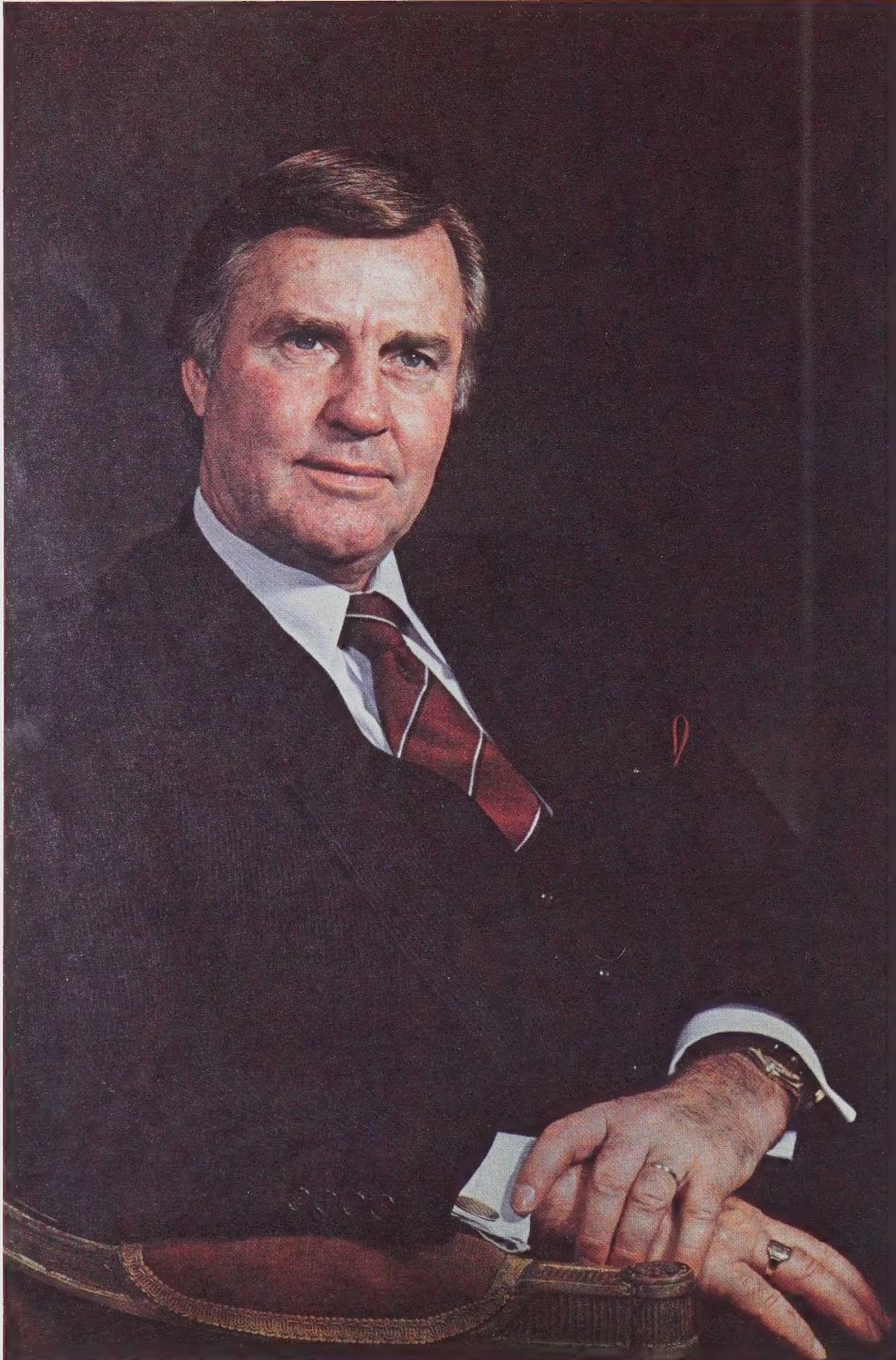
PRINCIPAL GROUP LTD. 1981

P principal Group Ltd. is a diversified financial institution, offering a broad spectrum of investment vehicles through its subsidiaries. The Edmonton-based company was started in 1954 with a \$60,000 investment. By following a balanced approach to investing, and maintaining a diversified portfolio not dependent on any one area of the economy, the company has grown consistently over the past 28 years and now has assets of \$521.5 million under administration. Principal recommends the same balanced approach to its clients.





The Chairman's Perspective



Financial Highlights

The year 1981 was difficult and challenging for the Canadian and world economies. Despite economic uncertainty, Principal continued to grow.

Managed assets increased 20.7% to \$154.4 million. Consolidated assets rose 16.6% to \$367.1 million.

Total assets under administration increased 17.8% to \$521.5 million. This compares to a compound annual growth rate of 38.5% since the company began in 1954.

Net income in 1981 was \$777,000. The decrease in net income from 1980 was due primarily to substantial increases in interest expenses. Average return on shareholders' equity was 9.4%. Principal's return on equity for the past six years has averaged 25.7%. This is well above our minimum objective of 20%.

Because of our diversification into a very liquid investment portfolio, Principal was not hurt as much as others by the proposed federal budget. The resultant pressures in real estate and mortgage portfolios affected us less since we had, as planned, moved away from a dependence on mortgages. We had diversified into a portfolio of cash and securities consisting largely of bonds and, to a smaller degree, stocks. At the end of 1981 our portfolio was broken down into the following categories:

Cash	4%
Bonds	23%
Common and Preferred Stock	14%
Mortgages and Secured Loans	47%
Real Estate and Other Assets	12%
	100%

Financial Planning Protection First, Gain Second

Principal's ability to withstand an adverse economic environment is a result of our long-term strategy of having a balanced approach to ensure preservation of capital. A strategy of protection first, gain second, enabled us to withstand adverse changes in the environment. It is exactly the kind of balanced approach that we recommend to our clients. In other words, we practise what we preach. The balanced investment plan we recommend includes liquidity, safety, growth and protection as part of an overall strategy aimed at reaching long-range goals and objectives.

As part of our own strategy, we have positioned ourselves so we can ride through difficult times and be ready and able to participate in the boom market we see coming.

Principal has a cash reserve that provides us with flexibility and liquidity and enables us to take advantage of opportunities when they occur, as well as handle our day-to-day operations.

We have fixed income assets that guarantee us a certain rate of return to meet our obligations. We have highly-secured, low-ratio, first mortgages, although we do not rely heavily on mortgages.

Our investment department believes the stock market is one of the biggest potential growth areas. We are never out of the market, but we manage our portfolio according to the market environment. As stocks become more and more undervalued, we have the cash reserves to buy the bargains as they appear. We participate actively in the stock market, but as we counsel our clients, we do not keep our entire portfolio in equities. We must have part of our portfolio outperform inflation, as our growth investments have over the past six years.

Government of Canada bonds are high-yielding, cashable investments with growth potential, secured by one of the most credit-worthy borrowers in the country — the government of Canada. These provide a combination of flexibility and cashability with high yield.

The balanced approach helps to provide protection of the assets of the corporation while providing opportunities for growth. It enables a person or corporation to think in terms of long-term gains and not short-term windfalls.

Positioned For Growth

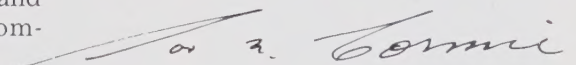
To position ourselves for the growth we see ahead, we expanded our offices and our services during 1981 at a time when it was economically more favorable to do so. We have top quality premises across the country designed especially for our needs, including our new head office. We are highly automated with the capability to expand technologically. In 1981, we com-

pleted the conversion from one computer system to another, a conversion that was difficult because we were adding new programs and products while simultaneously meeting day-to-day operational requirements.

We introduced the Principal Cash Management Card and automatic life insured loans on a test basis prior to their wide-spread introduction with automatic teller machines during 1982. These services are unique. Clients can manage their money as the company does. The Cash Management Card forms the basis for clients to manage all their investments with Principal.

Forecast

Principal, which has never lost sight of the value of thrift, is now entering a period of consolidating existing facilities and increasing productivity and efficiency. We have done the preparatory work and now we are ready to participate in the securities boom which is coming. It has taken longer than expected because dislocations caused by the international oil situation and gyrating interest rates have delayed any normal pattern. Every indication now is that the big market will cut in this fall. We are looking ahead to an exciting and challenging year for Principal, a year in which the continued effort and dedication of all employees will be important to us all.



Donald M. Cormie, Q.C.
Chairman
Principal Group Ltd.

Principal Consultants President's Club

Each year we honor this select group who have best delivered our services to our clients. The members of this exclusive club are individuals who have demonstrated professional excellence and leadership in their industry. Principal is proud of these men and women and the way they have served their clients and the company.

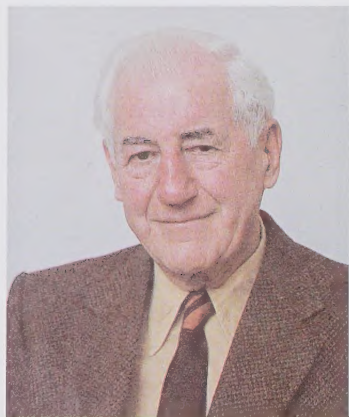
Once again, Don Slater of Calgary is president of the President's Club — in recognition of his achievements as the company's top financial consultant.



Don Slater — President
Calgary



Howard Taylor
Calgary



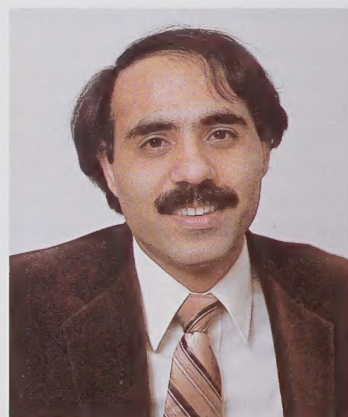
Walter Green
Calgary



Wally Noble
Calgary



Robert Keats
Vancouver



Anil Giga
Calgary



Christine Potuzak
Vancouver



Karen Esplen
Edmonton



Phillip Chan
Victoria

Principal Group of Companies

Services:

Provided by:

Financial Consulting and Tax Planning

Principal Consultants Ltd.

Principal Investors Corporation

Trust Services

Principal Savings and Trust Company

Investment Contracts and Thrift Services

First Investors Corporation Ltd.

Associated Investors of Canada Ltd.

Principal Certificate Series, Inc.

Investment Funds and Investment Management Services

Collective Mutual Fund Ltd.

Principal Growth Fund

Principal Venture Fund Ltd.

Principal Bond Fund

Principal Securities Management Limited

Insurance Services

Principal Life Insurance Company of Canada

Mercer and Williams Agency Ltd.

Management Services to Member Companies

Principal Group Ltd.

Principal Financial Centres - Principal Consultants Ltd.



Pincipal offers the services of its member companies through its Principal Financial Centres.

These centres are designed to meet all clients' financial needs under one roof. One of the most important services clients receive at a financial centre is the advice of a Principal Financial Consultant.

Allan Heywood decided the one person who could help him plan for and protect his future was his Principal account executive Howard Taylor. Allan had been an accumulation plan client for five years.

Then, in December 1981, the 39-year-old Calgarian suddenly found himself with more to protect and invest than he expected. His Christmas gift from his wife, Jay Smith, was a Western Express ticket that won him \$100,000.

When Howard Taylor dropped around to wish Allan a Merry Christmas, he found the family in a state of shock. Howard suggested they take a week or two to get used to the fact they had the money before doing anything.

Allan and Jay were determined not to let the money slip away. "It would be foolish to blow it on yachts and cars; you can lose material things. You'd be through the money in no time," said Allan. "We aren't changing our lifestyle. We've always worked for everything we've had. So we'll continue, though I must admit it has given me a sense of freedom."

Allan felt if he invested the money wisely now, it would quadruple in ten years and then perhaps he could retire early. He would also like to have his own home — when he feels he can afford to do so. But Allan did not feel comfortable investing the money on his own.

"I didn't know how to handle that type of money. It kind of scares you. I'm just not knowledgeable enough about the market or investments in general so I asked Howard for help."

Howard sat down with Allan and Jay and helped them figure out where they wanted to be when, and what they had to do to get there.

"You have to be completely open with your consultant or he can't help you. Howard doesn't make my decisions for me, but outlines areas I could get into and then I make the decisions myself. Anybody with a large sum of money should sit down with someone like him who can represent and advise them," said Allan.

He has invested more than three-quarters of his winnings with Principal. Some is in a five-year term certificate, some in the Principal Venture Fund and some in a 90-day short-term certificate — a balanced approach to investing.

"So I'm covered three ways, and I have flexibility and liquidity in case I need some money. As for investing the interest on the 90-day money, we'll discuss it with Howard at the time. He's looking after me very well."

Allan first came to Principal because his father had worked for the company and he knew the rates were good and he could invest as much a month as he could afford. His parents are still Principal clients.

"I've recommended to friends, who say they have trouble investing, that they invest with the kind of plan Howard had me in before. If you put yourself in a fund you lock yourself in, whereas, in a bank account, you can put it in one day and take it out the next. The consultants only put you into one for as much as you can really afford."

Allan, Jay and the children Terry, Gary and Tom, are comfortable with the plans they are making for the future and feel their consultant is the person who has helped them protect the future.

"I believe in the salesmen at Principal. They are honest with you. I can walk into the office and get any information I wish at any time. And what's really nice is that they treated me the same way before and after I got this money," said Allan.

Principal Consultants Ltd.

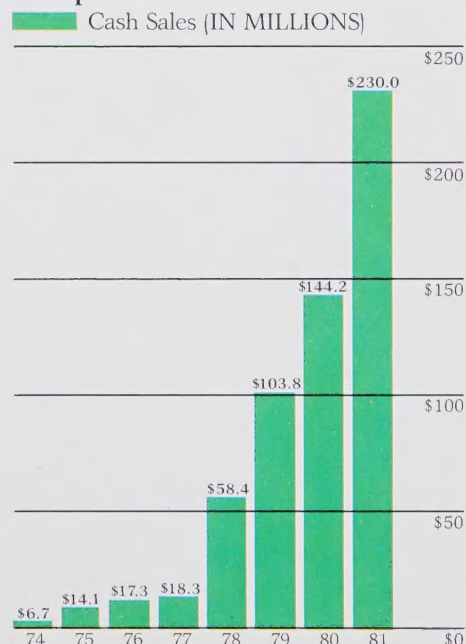
Principal Consultants (PCL) is the subsidiary company for which the consultants work. PCL is a registered broker and has distributed most of Principal Group's products and services since 1970. At the end of 1981, the company had 210 licensed financial consultants in the 38 offices across the country.

The consultant helps people to draw up a blueprint for their financial security and gives them the opportunity to invest their money as the company does. Consultants advise clients on how best to structure their plans to place their financial houses in order using the four pillars of liquidity, safety, growth and protection.

The consultant's advice is backed by the expertise of our investment, tax and legal departments.

Under the leadership of PCL President Kenneth N. Marlin, Principal Consultants cash sales increased 59.5% to \$230 million in 1981. Sales volume (an adjustment made to each sales to reflect distribution income) was \$138.3 million. That was 16.3% over last year's record of \$118.9 million.

Principal Consultants Ltd.



Principal Financial Centres — Principal Trust



Pincipal Savings and Trust Company expanded both its facilities and its services during 1981. Additional branches were opened in Surrey, British Columbia; Edmonton, Alberta; Regina, Saskatchewan; and St. John's, Newfoundland. The Principal Cash Management Card, which is offered together with Principal VISA card, was introduced during the year and the groundwork laid for the introduction of automatic teller machines.

The on-line computer system which links the branches is designed to enable them to operate in a highly efficient and cost-effective manner. The aim is to provide prompt service to assist people to manage their money most effectively.

Ann Gordon was one of the first to open an account in the Edmonton Imperial Oil Building branch when it opened several years ago.

"It was handy at the time and somebody told me it was good. I especially liked the free chequing — and still do," said Ann, who is an account executive and vice-president of Midland Doherty, a national brokerage firm.

By the time her office location moved, she had decided she wanted to stay with Principal even though she had to walk a few blocks. "I wouldn't go anywhere else. I like going there. I know them all and they know me and they give me very good service. Besides," she added with a smile, "I can use the exercise!"

Ann, who has chequing and savings accounts, was one of the first to obtain a Principal VISA card which she finds handy for business purposes.

She and her husband Don had a RHOSP with Principal which they deregistered this year to buy a house.

Ann was pleased to know that Imperial branch savings manager, Sandy McLachlan had the highest demand deposits in the company. "I can see why. She's efficient and she and her staff are all pleasant. She's been very helpful to me."

For some time Ann was not only handling her own accounts, but was also looking after her mother-in-law's term deposits and other financial affairs at Principal. And when her son was killed two years ago, Ann was executrix of the estate and handled the financial affairs through Principal.

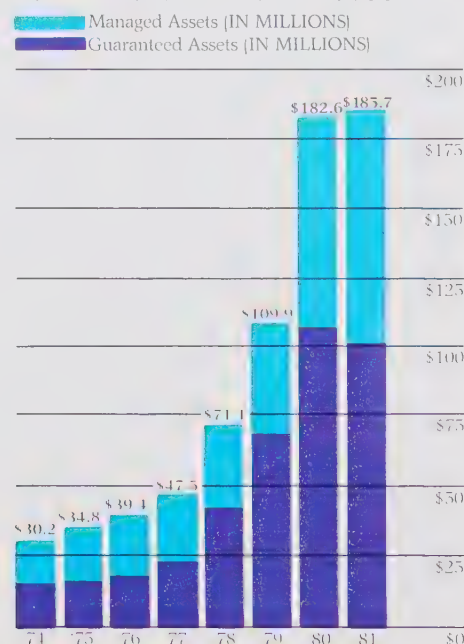
"I'd certainly refer others to the company," said Ann, "and I wouldn't go anywhere else."

Background

Principal Savings and Trust Company is an Alberta incorporated trust company founded in 1965. Its wide range of trust and fiduciary services include: no charge chequing, daily interest savings accounts, term deposits, registered retirement savings plans, VISA and the Principal Cash Management Card.

Principal Trust also acts as the trustee for all of Principal Group's RRSP products including Principal Growth Fund and Principal Bond Fund. The company is a member of the Canada Deposit Insurance Corporation. It is also a member of the Trust Companies Association of Canada and the Association of Alberta Trust Companies.

Total Assets Under Administration



Investment Contracts & Thrift Services



First Investors and Associated Investors are two investment contract companies in Principal Group. They are regulated by the Investment Contracts Act (Alberta) and offer contractual savings plans, single payment investment certificates, and annuities.

The products available through these companies offer a high degree of safety to those concerned about guaranteed future security.

Vern Oliver of Calgary is one of those clients. In 1956 he decided to start planning for his retirement by investing a few dollars a month in a First Investors 20 year term certificate.

Through the years he and his wife Mildred have invested in several more certificates, always re-investing them when they matured.

"I decided I had to look after my own retirement plans because company or government plans weren't going to give me what I needed. But I don't have a financial mind so I put it in the hands of someone who does. I think it's folly for a person to try to do it on his own when he really doesn't know what he's doing," said Vern.

The late John (Nip) Marshall was his Principal Consultant for many years before account executive Walter Green took over eight years ago. "Walter's not only my adviser, he's become my friend," said Vern.

He's going to retire in a couple of years and says his investments "have taken considerable worry off retirement. Without them, retirement would have been very sparse. We would have had to govern ourselves real closely."

Vern chose the safety of certificates because that was what he was comfortable with. "I'm not a gambling type. I like to know my money is secure. But I've got to a point now where I feel I could try one venture, with Walter's advice, into funds." At one point he used his certificates as collateral for a loan for a major purchase. "That way I was still getting the benefit out of them."

When he retires from his job at Modern Packaging where he's in charge of maintenance for the whole plant, Vern plans to do a bit of trailering with his wife and to sit there and feed the fish worms.

"I'll use my investments only as I need them. I'll keep them reinvested — though perhaps in shorter terms. I guess you could say we feel as secure about retirement as a person can these days. I didn't have to have a lot of dollars to get started, and I wasn't trying to build a large estate. I just wanted to make retirement comfortable for me and my wife."

First Investors Corporation Ltd., the first company in Principal Group, was founded in 1954. It offers its investment contracts in seven provinces; British Columbia, Alberta, Saskatchewan, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland.

Associated Investors of Canada Ltd. was founded in 1948 and joined Principal in 1962. It offers its investment contracts in Alberta, British Columbia and Saskatchewan.

Both companies hold assets in excess of 100% of certificate liabilities with a Canadian chartered bank as custodian.

Assets of both companies are in qualified investments of the type permitted to Canadian incorporated life insurance companies.

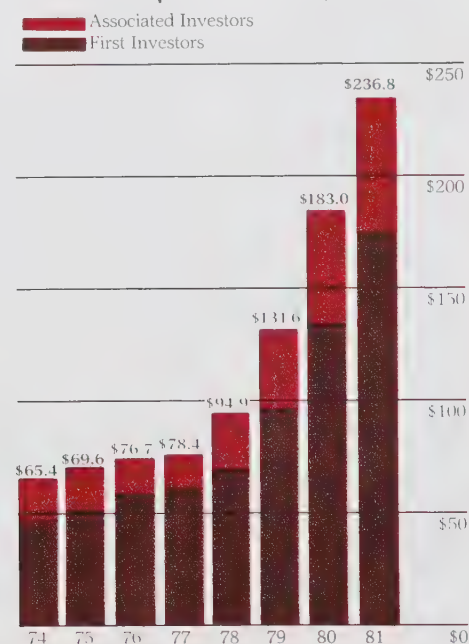
Financial Highlights

Total assets increased 32.4% to \$178.5 million. Mortgages represented 49.1% of First Investors' total assets. Cash and marketable securities represent 45.3% of its assets.

The growth of First Investors over the past seven years has been dramatic. Assets have increased 267.3% representing a compound annual growth rate of 20.4%.

Associated Investors' assets increased 20.9% to \$58.3 million. Associated maintains its certificate reserves and assets largely in the same proportion as First Investors. Associated's growth has been similarly impressive. In the past seven years its total assets have increased 247%, representing a compound annual growth rate of 19.5%.

Total Assets (IN MILLIONS)



Investment Funds & Investment Management Services



Pincipal's investment funds have consistently outperformed the Toronto and New York markets — and continued to do so in 1981.

The four investment funds: Principal Venture Fund, Principal Growth Fund, Collective Mutual Fund and Principal Bond Fund provide clients with the opportunity for growth. As well, they offer clients full-time professional management, diversification of risk, a hedge against inflation and tax advantages.

Rita O'Byrne is a perfect example of how a client, with her consultant's advice, used different Principal products at different stages of her life to achieve the financial goal she wanted.

She was director of medical records at a Calgary hospital when Don Slater made a thrift presentation to her in 1959.

"Right at that time I'd been thinking I had to get into some compulsory saving, so the accumulation plan for a 20 year term certificate really appealed to me. I had two, at \$14 each, so that was \$28 a month. It doesn't sound like much now, but I was only making \$280 a month in those days. I felt Don was trustworthy. He wasn't the first person to try to talk me into investing, but he's the first one who succeeded. I felt secure with him."

In 1963, Rita and Don decided if she were to provide for her retirement she should also get into the investment funds which offered more growth potential. She became one of the very early Collective Mutual Fund holders. Eventually she also purchased Principal Growth Fund, and when her accumulation plan matured she put it into Principal Venture Fund.

"I've watched the growth of my shares and it has given me a feeling of financial security. My money was working well for me," said Rita.

Those investments gave Rita the freedom to feel she could retire early — which she did for medical reasons.

"I couldn't possibly have retired otherwise. I had a pension but that's not sufficient. You really have to look after yourself. But, I couldn't do it on my own. I wouldn't have tried, because I really don't understand. Don has been honest with me and has given me good advice. He is Principal for me."

She's leaving her investments the way they are right now, until Don advises her to do otherwise. "I won't take the monthly income from it until I know I have to. But I know it's there," said Rita.

As far as Don Slater — Principal's top sales representative — is concerned, people like Rita who have saved and reinvested their money with Principal are the backbone of the company. "It's nice to see someone build their nest egg and reinvest it; build a retirement income and then make it grow. She and

I have both grown with Principal Group," he said.

Investment Fund Performance

The total net assets of Principal's four funds increased 18.9% to \$124.2 million in 1981. In the last seven years the total net assets of the funds increased 711.4%. This growth represents a compound annual growth rate of 32.3%.

Principal Venture Fund Ltd.

The net asset value per share of the Principal Venture Fund (PVF) held its own during the year, starting and ending the year at \$7.74 a share. For the past seven years it has increased 399.4%, representing a compound annual growth rate of 25.8%.

The Venture Fund aggressively seeks stocks of U.S. and Canadian companies which will show long-term gains rather than short term windfalls.

Principal Growth Fund

Despite the difficult economic year, the net asset value of Principal Growth

Fund (PGF) decreased from \$7.12 to \$6.22 in the last twelve months. Capital gains and income distributions totalled \$.504. The net effect was a 6.2% decrease in 1981 including reinvested distributions. PGF's growth rate over the last seven years, including reinvested distributions, has been 235.3% representing a compound annual growth rate of 18.9%.

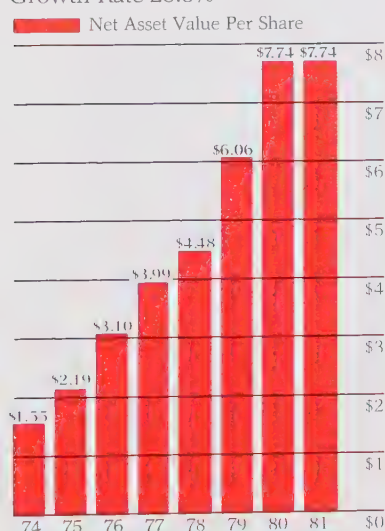
More than 90% of the Fund's investments are in Canadian securities. The Growth Fund qualifies for registered retirement savings plans (RRSPs), deferred profit sharing plans (DPSPs) and some registered pension plans.

Collective Mutual Fund Ltd.

The share price of Collective Mutual Fund (CMF) decreased from \$14.93 to \$13.71 in its fiscal year ending November 30, 1981. Including the reinvestment of a capital gains distribution of 51.5 cents per share, CMF declined only 4.8%. It has grown at a compound annual growth rate of 18.9% for the seven years ending November 30.

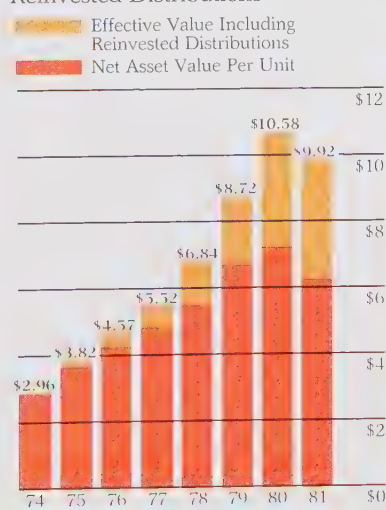
Principal Venture Fund Ltd.

7 Year Compound Annual Growth Rate 25.8%



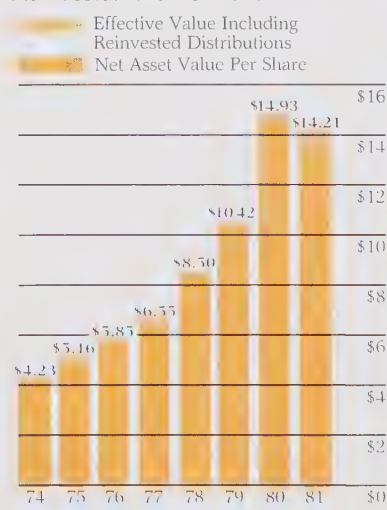
Principal Growth Fund

7 Year Compound Annual Growth Rate 18.9% Including Reinvested Distributions



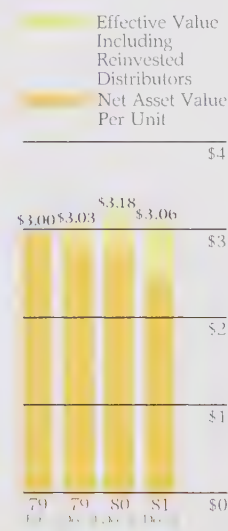
Collective Mutual Fund Ltd.

7 Year Compound Annual Growth Rate 18.9% Including Reinvested Distributions



Principal Bond Fund

3 Year Performance



CMF invests in any international market that offers blue chip investments at bargain prices. Currently, the Fund's investments consist primarily of stocks and convertible bonds in the U.S. market.

Principal Bond Fund

The Principal Bond Fund (PBF) introduced in 1979, declined only 4.9%, including the reinvestment of distributions, despite a very difficult year in the bond market. The objective of PBF is to provide investors with a high rate of income and capital appreciation potential over the long term. Since more than 90% of the portfolio is in Canadian investments, PBF qualifies for RRSPs, deferred profit sharing plans and some pension plans.

Investment Strategy

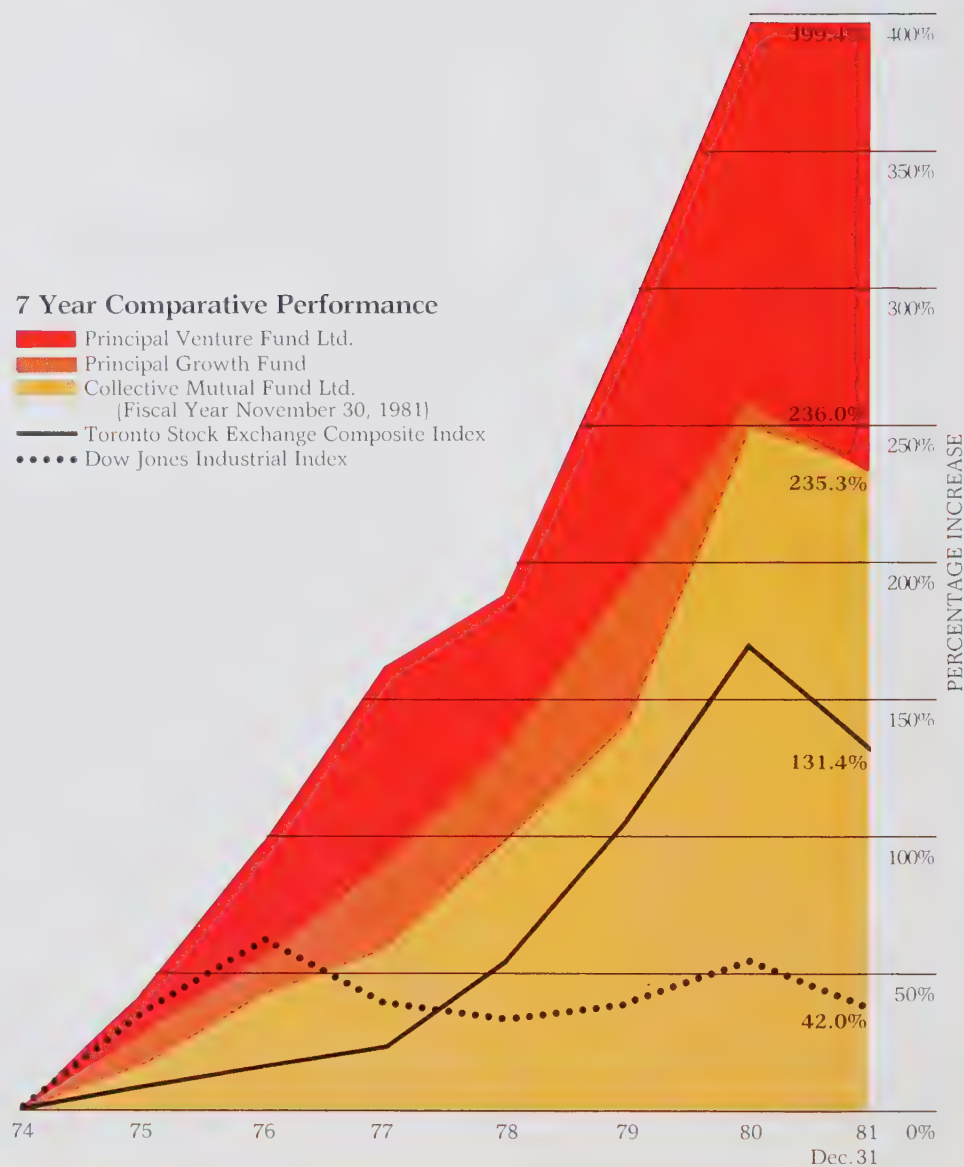
Principal Securities Management Limited (PSML) is the investment manager for the investment funds and some of the corporate portfolios of Principal's member companies. PSML also manages large individual investment accounts.

Since Investment Vice President James Cormie took over the area in 1974 Principal's three equity funds have outperformed both the Toronto and New York markets.

The markets themselves have also been increasing over that period. During the past year the Toronto Stock Exchange Composite Index declined 13.9%, but in the last seven years the index has increased 131.4% for a compound annual growth rate of 12.7%. The Dow Jones Industrial Index declined 9.2% in 1981. Over the last seven years, it has increased 42.0% for a compound annual growth rate of 5.1%.

7 Year Comparative Performance

- Principal Venture Fund Ltd.
- Principal Growth Fund
- Collective Mutual Fund Ltd.
(Fiscal Year November 30, 1981)
- Toronto Stock Exchange Composite Index
- Dow Jones Industrial Index



Management Services

The foundation on which the pillars of liquidity, safety, growth and protection sit is the management services provided by the parent company — Principal Group Ltd. These services are structured by function, emphasizing the company's areas of operations.

Sales & Deposits

Sales

The Sales department provides management services to Principal's distribution arm, Principal Consultants Ltd. Area vice-presidents supervising Principal's Financial Consultants in 1981 were Robert Cormier, James Gilhooly, James Mead, Wallace Noble, Colin Rich and Lorne Richards.

Trust Services

The Trust Services department is responsible for expanding the Group's retail marketing approach through Principal Trust. It is also responsible for the audio-visual division.

Marketing

This department's responsibilities include advertising, public relations, direct mail marketing, client communications and site selection, construction and opening of Principal Financial Centres. Marketing is responsible for developing the most cost effective ways of bringing funds into the company.

Institutional Sales

The offices of Institutional Sales are located in Vancouver. This department is responsible for developing new markets for the company's products and services among corporate and institutional investors.

Finance

The Finance department which includes general accounting, customer accounting, computer development and computer operations departments, is responsible for providing timely information for all aspects of the Group.

Conversion to the GEAC 8000 computer was completed during 1981.

Investments

The Investment department provides management services for seven corporate portfolios, four investment funds and for managed accounts. An investment committee meets weekly to analyze economic trends, set policy and verify adherence to the policy.

Stock & Bond Department

A sophisticated communications and market analysis system is used to monitor prices and trends in over 4,000 stocks in Canada and the United States. This assists the investment managers in providing some of the best results in Canada.

Mortgages

A diversified portfolio of residential, commercial and construction mortgages is maintained.

Executive

Corporate Development

The Corporate Development department assists the chairman in analyzing and implementing new business opportunities for the Group.

Internal Audit

The role of this department is to safeguard the assets of the company by monitoring all policies and procedures using both on-site inspection and computer control techniques.

Professional Services

Legal & Taxation

The Legal and Tax departments ensure the company is aware of, and in compliance with, the wide range of legislative and tax regulations affecting the company.

These departments also ensure that the company avails itself of every opportunity that new provisions and laws permit.

Consolidated Balance Sheet

December 31, 1981

ASSETS	1981	1980
Cash	\$ 12,909,000	\$ 18,385,000
Securities (Note 2)	138,171,000	149,081,000
Mortgages and Secured Loans	173,709,000	121,373,000
Real Estate	5,076,000	1,467,000
Investment in Affiliates, Unconsolidated		
Subsidiaries and Mutual Funds	435,000	435,000
Due from Parent and Affiliated Companies	18,667,000	9,585,000
Accounts Receivable and Other Assets	6,246,000	5,007,000
Furniture, Equipment and Leasehold		
Improvements (Note 3)	6,269,000	3,911,000
Excess of Cost of Shares Over Book Value of Net		
Assets of Consolidated Subsidiaries at Date		
of Acquisition	5,653,000	5,653,000

Approved by the Board:

 (Signed) Director

 (Signed) Director

\$367,135,000 \$314,897,000

LIABILITIES	1981	1980
Certificate Liabilities		
Installment savings certificates	\$ 29,034,000	\$ 32,817,000
Single payment certificates	190,500,000	138,672,000
Additional provision for maturities	1,551,000	2,095,000
	221,085,000	173,584,000
Other Liabilities		
Guaranteed investment certificates and savings deposits	93,508,000	102,131,000
Accounts payable and accrued charges	2,764,000	2,619,000
Income taxes	—	190,000
Notes and mortgages (Note 4)	32,726,000	19,807,000
	128,998,000	124,747,000
Deferred Income Taxes	1,537,000	1,332,000
Minority Interest	702,000	706,000
	352,322,000	300,369,000
Contingency (Note 6)		
SHAREHOLDERS' EQUITY		
Share Capital (Note 5)	5,700,000	5,700,000
Reserve for Redemption of First Preferred Shares	700,000	650,000
Retained Earnings	8,413,000	8,178,000
	14,813,000	14,528,000
	\$367,135,000	\$314,897,000

Consolidated Statement of Income

Year Ended December 31, 1981

	1981	1980
Income		
Investments	\$48,756,000	\$36,312,000
Management and other fees	3,402,000	2,234,000
	52,158,000	38,546,000
Expenses		
Interest	42,356,000	26,884,000
Operating	9,244,000	5,566,000
	51,600,000	32,450,000
Operating Income	558,000	6,096,000
Provision for Loss on Real Estate	—	(454,000)
Income Before the Undernoted	558,000	5,642,000
Income Taxes (Recovery)	(221,000)	1,251,000
Minority Interest	2,000	260,000
Net Income	\$ 777,000	\$ 4,131,000

Consolidated Statement of Retained Earnings

Year Ended December 31, 1981

Balance, Beginning of Year	\$8,178,000	\$5,070,000
Add		
Net income	777,000	4,131,000
	8,955,000	9,201,000
Deduct		
Dividends	337,000	820,000
Appropriation to reserve for redemption of first preferred shares	50,000	50,000
Refundable income taxes paid — net	155,000	153,000
	542,000	1,023,000
Balance, End of Year	\$8,413,000	\$8,178,000

Consolidated Statement of Changes in Financial Position

Year Ended December 31, 1981

	1981	1980
Sources of Cash		
Investment certificates issued	\$ 180,713,000	\$ 113,031,000
Increase in savings deposits (net)	—	34,370,000
Mutual fund certificates	13,736,000	12,235,000
Securities sold	91,974,000	72,843,000
Principal repayments on mortgages receivable	31,767,000	23,398,000
Investment income and fees	22,757,000	15,468,000
Promissory notes	38,428,000	17,190,000
	379,375,000	288,535,000
Uses of Cash		
Investment certificates redeemed	160,923,000	71,306,000
Settlements on savings deposits (net)	13,059,000	—
Mutual fund certificates	13,736,000	12,260,000
Securities purchased	73,547,000	119,461,000
Mortgages	72,165,000	62,038,000
Principal repayments on notes and mortgages	26,553,000	6,644,000
Operating expenses	20,402,000	15,808,000
Dividends	337,000	645,000
Equipment and other	4,129,000	2,366,000
	384,851,000	290,528,000
Decrease in Cash	5,476,000	1,993,000
Cash, Beginning of Year	18,385,000	20,378,000
Cash, End of Year	\$ 12,909,000	\$ 18,385,000

Notes to the Consolidated Financial Statements

December 31, 1981

1. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and include the following:

Basis of consolidation

The consolidated financial statements include the accounts of the company and the following subsidiaries:

Associated Investors of Canada Ltd.
First Investors Corporation Ltd.
Principal Savings and Trust Company
Principal Life Insurance Company of Canada
Principal Securities Management Limited
Principal Consultants Ltd.
Principal Service Inc.
Mercer & Williams Agency Ltd.

The accounts of Collective Mutual Fund Ltd., Principal Venture Fund Ltd., Principal Growth Fund and Principal Bond Fund, mutual fund subsidiaries or trusts managed by the company, are not consolidated as the net income accrues to the mutual fund share or unit holders.

Securities

The investment in stocks is carried at cost and in bonds at amortized cost. The amortized cost of government bonds is calculated under the 'deferral and amortization' method. The amortized cost of other bonds is calculated under the 'completed transaction' method. Bond discounts and premiums are amortized on the straight-line method over the term of the applicable bonds.

Mortgages and secured loans

Mortgages and secured loans are carried at amortized cost plus accrued interest, less repayments and provision for possible losses. Discounts and premiums are amortized on the sum-of-digits method over the due and payable term of the applicable loan.

Real estate

Real estate is valued at the lower of cost and appraised value.

Furniture, equipment and leasehold improvements

Equipment and leasehold improvements are recorded at cost. Depreciation and amortization are recorded under the straight-line method at the rates shown in Note. 3.

Other assets

The investment in affiliates is recorded at cost. The investment in unconsolidated subsidiaries and funds is recorded on the equity method. Accounts receivable and other assets are recorded at cost. The excess of cost of shares over book value of net assets of consolidated subsidiaries at date of acquisition, which was prior to 1974, is recorded at cost without amortization.

Certificate liabilities

Certificate liabilities are carried at amounts paid in plus accrued interest less the amortized cost of expenses incurred to acquire the certificate contract. These costs are amortized under the

yield method over the term of the certificate contract.

Income taxes

Income taxes are accounted for using the tax-allocation basis, under which income taxes are provided in the year transactions affect net income, regardless of when such transactions are recognized for tax purposes. Timing differences giving rise to deferred income taxes relate primarily to claiming mortgage and other reserves for income tax purposes in excess of those charged in the accounts.

2. Securities

	Cost	
	1981	1980
Government bonds	\$ 62,298,000	\$ 69,315,000
Corporate bonds	18,883,000	26,414,000
Stocks	54,370,000	50,712,000
Accrued income	2,620,000	2,640,000
	\$138,171,000	\$149,081,000

	Market Value	
	1981	1980
Government bonds	\$ 45,389,000	\$ 59,615,000
Corporate bonds	14,348,000	25,850,000
Stocks	43,479,000	49,555,000
Accrued income	2,620,000	2,640,000
	\$105,836,000	\$137,660,000

3. Furniture, Equipment and Leasehold Improvements

	1981	1980	Depreciation Rates
Furniture and equipment	\$3,136,000	\$2,146,000	5 - 10%
Leasehold improvements	4,485,000	2,580,000	5 - 20 years
	7,621,000	4,726,000	
Less accumulated depreciation and amortization	1,352,000	815,000	
Net equipment and leasehold improvements	\$6,269,000	\$3,911,000	

Depreciation and amortization provided for the current year totalled \$769,000 (1980 - \$444,000).

4. Notes and Mortgages

Notes and mortgages bear interest at rates ranging from 10 1/4% to 23 1/4% and mature 1981 to 1987. The aggregate amount of principal payments required to meet long-term debt obligations in each of the next five years are as follows:

1982	\$15,500,000
1983	4,287,000
1984	6,901,000
1985	4,154,000
1986	1,380,000

Interest on the notes and mortgages for the year amounted to \$3,356,000 (1980 - \$2,078,000).

5. Share Capital

Authorized		
200,000	7% cumulative first preferred shares of a par value of \$25, redeemable at \$26.75	
200,000	non-cumulative redeemable second preferred shares of a par value of \$25, issuable in series, Series 1 redeemable at \$26.50	
1,000,000	common voting shares	
1,000,000	common Class A non-voting shares, both of no par value	
Issued and fully paid		
100,000	7% cumulative first preferred shares	\$2,500,000
108,000	6% second preferred, Series 1 shares	2,700,000
1,000,000	common voting shares	500,000
		\$5,700,000

6. Other

The shares of Principal Life Insurance Company of Canada are pledged as security for intercompany debt eliminated on consolidation. Certain conditions exist with regard to the release of this security. The shares of Associated Investors of Canada Ltd. are pledged as security for bank indebtedness. The common shares of First Investors Corporation Ltd. are pledged as security for bank indebtedness of the parent company.

Included in operating expenses are management fees paid to parent and affiliated companies and remuneration paid to directors and senior officers of the company and its consolidated subsidiaries amounting to \$1,674,000 (1980 - \$1,431,000).

The company has lease commitments on the premises occupied by its head office and financial centres amounting to approx-

imately \$1,717,000 per annum. The terms of the leases vary from four to fourteen years.

The company is contingently liable for a note issued with a face amount of \$278,000 (1980 - \$649,000) which was assumed by the parent company.

Certain of the 1980 figures have been reclassified to conform with the 1981 presentation.

Auditors' Report

To the Shareholders of
Principal Group Ltd.:

We have examined the consolidated balance sheet of Principal Group Ltd. as at December 31, 1981 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1981 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Auditors

May 19, 1982



Behind (left to right) Gary Smith, *Legal Counsel*; Robert Langston, *Director of Taxation*; Don R. Cormie, *Vice-President, Institutional Sales*; Donald M. Cormie, *President*; John Cormie, *Vice-President, Trust Services*; Kenneth Marlin, *Sr. Vice-President, Sales*; James Cormie, *Vice-President, Investment*.

Front (left to right) Archie Campbell, *Vice-President, Finance*; Josef Schachter, *Manager, Equity Investments*; Christa Petracca, *Vice-President, Corporate Development*; John Hickey, *Vice-President, Marketing*.



Area Vice-Presidents (left to right) Lorne Richards, *1982 Atlantic Area Vice-President*; Grant Mitchell, *Executive Assistant, Sales*; Kenneth Marlin, *Sr. Vice-President, Sales*; Donald M. Cormie, *President*; Robert Cormier, *Northlands Area, Vice-President*; Colin Rich, *Prairie Area, Vice-President*; James Mead, *Mountain & Pacific Area, Vice-President*; James Gilhooly, *1981 Atlantic Area Vice-President*; Wally Noble, *Foothills Area, Vice-President*.

Principal Plaza



Pincipal Plaza is a major office and retail complex in downtown Edmonton. Opened in December 1980, Principal Plaza includes a 31-storey, 482,000 square foot office tower, a 400 car parkade and three levels of retail shops and restaurants. Clad in bright aluminum and solar glass, the Principal Plaza tower features eight corner offices per floor.

Principal Group's corporate offices are housed in the building. Principal Savings and Trust Company and Principal Consultants Ltd. occupy a 6800 square foot Principal Financial Centre in prime space on the main floor. Tenants, clients and customers have easy access from the landscaped plaza area at Jasper Avenue and 103 Street, to the office tower lobby, to the Principal Financial Centre, and to escalators linking all 3 levels of retail shops and services.

CORPORATE OFFICES

2900 Principal Plaza
10303 Jasper Avenue
Edmonton, Alberta
(403) 421-2020

ALBERTA

Principal Financial Centres

CALGARY

3rd Floor, Lancaster Building
304 - 8th Avenue S.W.
(403) 237-0670

Main Floor, Lancaster Building
304 - 8th Avenue S.W.
(403) 237-0130

EDMONTON

1 Imperial Oil Building
10025 - Jasper Avenue
(403) 428-6003

Main Floor, Principal Plaza
10303 Jasper Avenue
(403) 421-8101

Sales Offices

CALGARY

816 - 5th Avenue S.W.
(403) 264-3474

EDMONTON

902, 10025 Jasper Avenue
(403) 423-3237

LETHBRIDGE

#101, 740 - 4 Avenue S.
(403) 329-3444

MEDICINE HAT

#216, 437 - 3rd Street S.E.
(403) 529-2054

BRITISH COLUMBIA

Principal Financial Centres

COQUITLAM

1206 - 2929 Barnet Highway
(604) 464-3544

KELOWNA

103 - 591 Bernard Avenue
(604) 763-7211

SURREY

13451 Surrey Place Mall
(604) 588-5711

VANCOUVER

625 Howe Street
(604) 687-2356

VICTORIA

1111 Blanshard Street
(604) 386-5232

Sales Offices

KAMLOOPS

#2, 275 Seymour Street
(604) 372-3131

KELOWNA

591 Bernard Avenue
(604) 763-7211

NEW WESTMINSTER

#201, 615 - 8th Street
(604) 526-1851

PENTICTON

210 Main Street
(604) 492-8134

VERNON

3406 - 31 Avenue
(604) 542-5347

NEW BRUNSWICK

Sales Offices

MONCTON

Main Street, Highfield Square
(506) 388-1285

NEWFOUNDLAND

Principal Financial Centres

ST. JOHN'S

Avalon Mall, Level II
(709) 726-0782

NOVA SCOTIA

Principal Financial Centres

HALIFAX

6169 Quinpool Road,
Quinpool Centre
(902) 429-2120

Sales Offices

HALIFAX

#107, 6080 Young Street
(902) 453-2030

CAPE BRETON

R.R. 3, Bras D'Or
(902) 736-8280

PRINCE EDWARD ISLAND

Sales Offices

MONTAGUE

P.O. Box 547
(902) 838-3113

SASKATCHEWAN

Principal Financial Centres

REGINA

Cornwall Centre
(306) 352-0601

Sales Offices

MOOSE JAW

351 Main Street N.
(306) 693-7520

REGINA

700 Midtown Centre
(306) 525-9104
1925 - 7th Avenue
(306) 525-8723

SASKATOON

259 - 3rd Avenue S.
(306) 664-1194

INSTITUTIONAL SALES DEPARTMENT

800 - 625 Howe Street
Vancouver, B.C.
(604) 669-4303

